

The Puzzle of the Los Angeles Economy

A Look at the Last Thirty Years

INSTITUTE FOR THE STUDY OF HOMELESSNESS AND POVERTY
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The Puzzle

**If Dad was working thirty years ago,
it was enough to support our family.**

**If Mom and Dad were both working ten years ago,
it was enough to support our family.**

**Today, Mom and Dad are working
and we're struggling to get by.**

What happened?



Over the Last Thirty Years...

Household income declined for 60% of all families in Los Angeles.

Families are working more hours each week and workers are better educated.

**Manufacturing jobs that traditionally provided higher wages for low-skilled workers
diminished, while lower paid service jobs continued to grow.**

Cost of living increases, particularly for housing, outstripped growth in salaries.

Poverty rose in the County, especially in the City of Los Angeles.

**The income gap between wealthy families and the rest of Los Angeles widened -
middle class and poor families became poorer while wealthier families became richer.**

Household Income Has Declined for Most Families

Median income for all workers has stagnated

According to the 2000 US Census, the median household income in Los Angeles County was \$42,189, down 11% from \$46,977 a decade ago and level with 1969 figures. This contrasts with increases in the state and nation. In 1970, Southern California had the 4th highest per capita income among the 17 largest metropolitan regions in the nation. This dropped to 7th in 1990 and 16th in 2000.¹

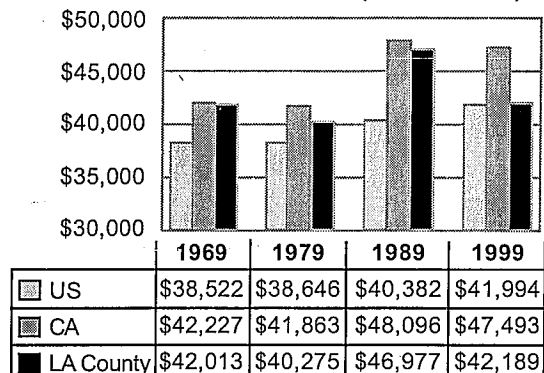
Middle class and poor households have lost income

In California, income for 60% of all households declined between 1975 and 1998 (the last year of tax data examined by the Legislative Analyst's Office). During the same period, income for the top fifth grew by 66%.³

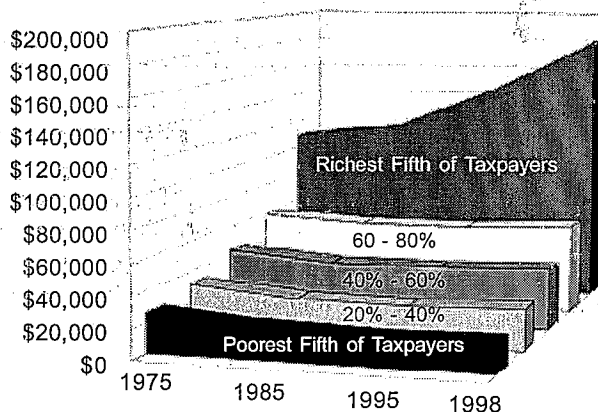
Young men's income is now less than that of their father's

In 1967, men ages 25-34 had more money in income than their father's generation had at the same age. In 1977, this still held true, but men in 1987 were the first to have a lower median income than the generation before them. Men in 1997 also made less than their fathers had at their age.⁵

US, California and Los Angeles County Median Household Income (1999 dollars)²

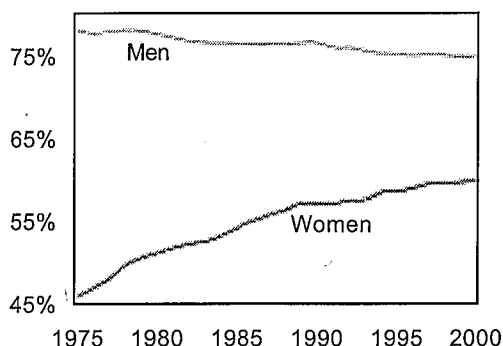


Average Adjusted Gross Income by Percentile in California, 1975 - 1998⁴



Families Are Harder Working and Better Educated

US Labor Force Participation Rates by Gender, 1975 - 2000⁶



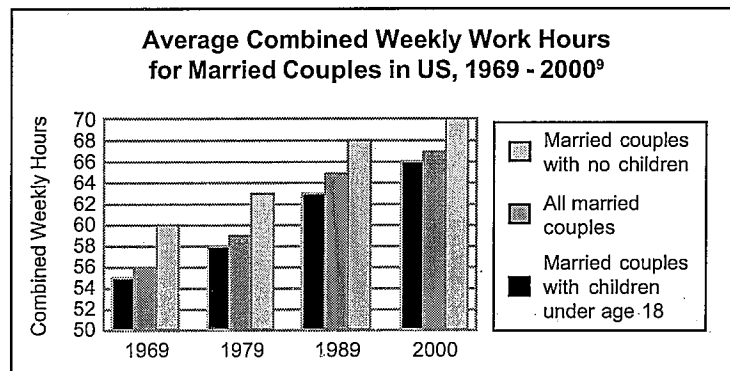
More households have two wage earners

In 1975, only 46% of US women were in the workforce. In 2000, the majority of women worked (60%). During this same period, the percentage of men who worked fell slightly from 78% to 75%. Dual-earner married couples are now the most common household type, totaling 38% of all households. About 67% of dual earner households have children under the age of 18. But despite having additional workers, US household income has only risen slightly.⁷

Families Are Harder Working and Better Educated *continued*

Working families are putting in more hours

Nationwide, the average combined weekly hours at work for married couples with children edged up to 66 hours in 2000, a 20% increase from 1969. The poorest fifth of California's married couples annually worked nine and one half weeks more (387 hours) in the late 1990s than they did in the late 1970s.⁸



More adults have college degrees

In 1970, 15% of persons 25 years and older in Los Angeles County were college graduates and 33% had not graduated from high school. In 2002, 28% were college graduates and 26% had not graduated from high school.¹⁰

Workers without a college degree receive lower wages

The only workers who have had an increase in hourly wages since 1989 in Los Angeles County were those with a bachelor's degree or higher. Wages declined 8% for workers with a high school education and 7% for those with less than a high school education. The same trend exists nationally, as real wages in the last three decades have declined for all workers without a college degree.¹¹

The Quality of Jobs Has Declined

Job growth has been concentrated in low-paying sectors

Between 1983 and 2001, the unemployment rate for Los Angeles County fell from 9.7% to 5.7%. Yet during this period, 238,000 higher-paying manufacturing jobs were lost and 765,400 lower-paying service jobs were gained.¹²

Most of the top ten jobs for the future are low-wage jobs

Eight of the top ten jobs in Los Angeles County that are predicted to have the most openings in 1999-2006 do not require a college degree. They have a starting pay of \$8.50 or less per hour (\$17,680 a year) and a mean annual wage ranging from \$15,181 to \$25,613.¹³

Los Angeles County Job Growth Forecast, 1999 - 2006 Occupations with the Greatest Absolute Projected Job Growth ¹⁴			
Occupations (<i>positions requiring college degree in italics</i>)	Entry Level Hourly Wage	Mean Annual Wage	Number of Job Openings
Retail Salespersons	\$6.97	\$22,191	44,480
Cashiers	\$6.75	\$19,766	39,930
General Office Clerks	\$8.47	\$25,613	34,180
<i>General Managers, Top Executives</i>	\$24.53	\$93,833	27,500
Waiters/Waitresses	\$6.75	\$15,181	26,170
Guards	\$7.64	\$19,633	25,200
Combined Food Preparation and Service	\$6.75	\$15,965	24,990
Food Preparation Workers	\$7.19	\$18,590	19,310
Janitors, Cleaners (Except Maid)	\$7.22	\$21,691	18,770
<i>Secondary School Teachers</i>	Not calculated	\$54,297	18,470

The Cost of Living, Especially Housing, Has Increased

The cost of living in Los Angeles is higher than nearly all other US cities

As of March 2003, Los Angeles was the 22nd most expensive city in the world, more expensive than San Francisco, but less than New York City.¹⁵

Rents have disproportionately increased

In 1970, the median monthly rent in Los Angeles County for a two-bedroom apartment was approximately \$122 (or \$578 in 2003 dollars). In the third quarter of 2002, the average rents in Los Angeles County were \$1,032 for a one-bedroom apartment and \$1,323 for a two-bedroom apartment. To "afford" (spend 30% or less of income on housing) the average two-bedroom apartment in 2002, a worker would need to make \$52,920 a year.¹⁶

Most renters cannot afford to buy a home

Among renter families in 1995 in the US, only 7% could afford to purchase a median priced home or condominium and only 13% could afford a low priced home. In 1999, the median annual household income for renters in Los Angeles was \$25,164. Approximately 75% of all renter families had incomes below \$40,000/year.¹⁷

Home prices and rents continue to rise

Real estate analysts expect average monthly rents to increase 8% to 15% in Los Angeles between February 2003 and the third quarter of 2004. Mortgage rates are expected to rise in 2003 and 2004.¹⁸

Homeownership rates trail US and California

The homeownership rate in Los Angeles County was 51% in 1975 and 50.1% in 2001, lower than both California's 58.2% and the national average for metropolitan areas of 67.8%. Among the largest 75 US metropolitan areas, Los Angeles's homeownership rate ranked 73th in 2002, trailed only by New York City and San Francisco.²⁰

Affordability of Median Priced Homes in Los Angeles County (2002)¹⁹

Median Priced Home (2002 Fourth Quarter)	\$304,600
Income Needed to Purchase a Median Priced Home with a 5% Down Payment	\$77,000
Elementary School Teacher's Average Annual Wage	\$49,625
Carpenter's Average Annual Wage	\$43,764
Licensed Practical and Licensed Vocational Nurse's Average Annual Wage	\$37,231
Dental Assistant's Average Annual Wage	\$37,526
Los Angeles Average Annual Wage	\$37,708
Los Angeles Median Income (1999)	\$42,189

The purchasing power of a minimum wage job has fallen

California's minimum wage rose from \$1.65 in 1968 to \$6.75 in 2002, a 309% increase. The cost of living in Los Angeles, as measured by the CPI, increased by 418% during the same period, resulting in a 35% loss in the real or spending value of the minimum wage. At minimum wage, a full time worker earns \$1,170/month in gross income, just below the poverty threshold for a family of three.²¹

Child care is out of reach for many

Child care is out of reach for many

For the average cost of one year of child care for a 4-year old in a center in Los Angeles County (\$404/month), a family could pay for a year's tuition and fees for nearly two college students at a California State University campus. Of parents who could not find child care in 2000, 53% said it was because they were unable to afford it.²²

Health insurance is unavailable to numerous working families

85% of all uninsured people in Los Angeles County are in working families. Among low income residents, 53% in the city and 37% in the rest of the county lack health insurance. This compares with rates of 23% and 15%, respectively, for residents who are not low income.²³

Poverty Has Risen

Poverty in Los Angeles is higher than the state and nation

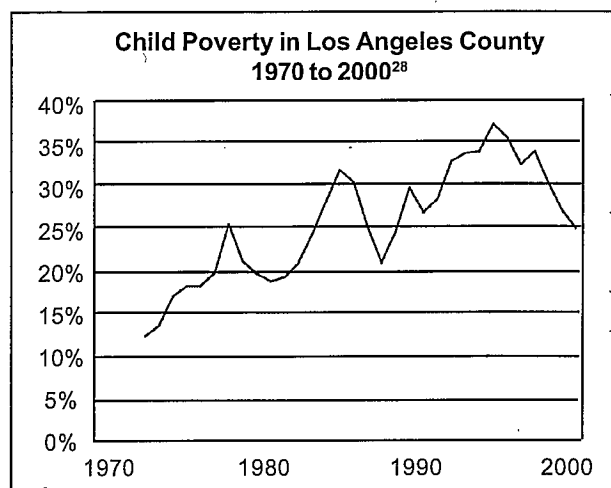
In 1969, the poverty rate for individuals in Los Angeles County (10.7%) was lower than both the state (11.1%) and the US (13.7%). In 1999, the county poverty rate was 17.9%, exceeding California (14.2%) and the nation (12.4%). Poverty in the City of LA climbed from 13.0% to 22.1% during this same period. In 2002, Los Angeles County's poverty rate declined to 16%.²⁴

The "official" poverty rate does not consider local housing costs

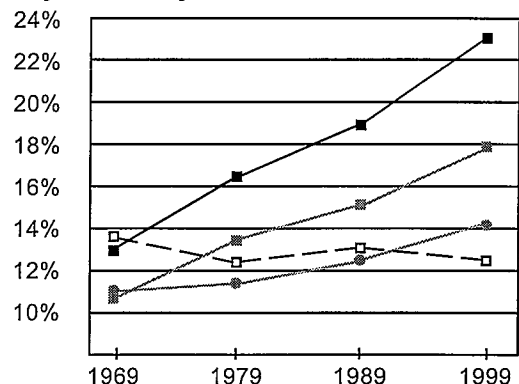
The poverty rate indicates the percentage of households, families or individuals whose income falls below annually calculated US poverty thresholds. These thresholds are based upon minimal but adequate family food budgets from 1955, which with minor adjustments are multiplied by three and adjusted for inflation. The thresholds are national and do not consider varying regional living expenses, such as housing or child care. The poverty line is the same in Los Angeles and Topeka.²⁶

Child poverty remains a problem

In 1970, 10.7% of children in Los Angeles County were poor according to the US Census Bureau. By 1994, this percentage had more than tripled to 36.2%, and subsequently declined to 23% by 2000. Nearly 45% of children in Los Angeles lived in high poverty neighborhoods in 2000, up from 35% in 1990.²⁷



Poverty Rates for Individuals
LA City, LA County, CA and US, 1969 to 1999²⁵



The number of high poverty neighborhoods has increased

Despite a national trend of low income people spreading out within communities from 1970 to 2000, Los Angeles has experienced an increase in the number of high poverty neighborhoods, as well as an increase in the number of low income people living in those neighborhoods. The number of people living in high poverty neighborhoods doubled from 267,666 in 1990 to 560,025 in 2000. There has also been a decrease in the number of non-poor neighborhoods.²⁹

More families are requesting emergency food and shelter

In 2002, the number of families in the City of Los Angeles requesting emergency food assistance increased from the prior year by 32%. The number of families with children requesting emergency shelter increased by 16%.³⁰

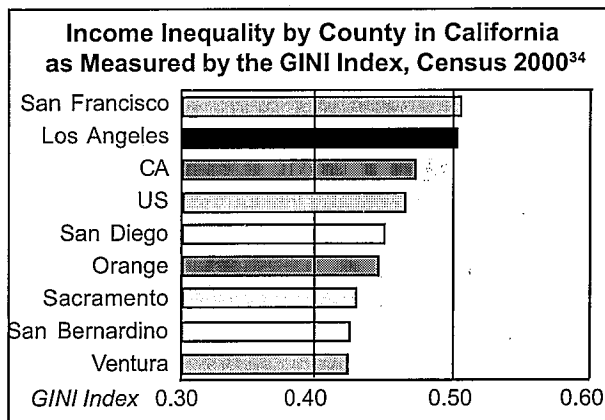
Homelessness is growing

In 1970, there were a few shelters in Los Angeles serving homeless people, principally missions in the downtown area. By 2000, there were 331 shelters. In 1984, the Countywide Taskforce on the Homeless estimated that there were 25,000 to 50,000 homeless people. There are currently an estimated 71,000 to 102,000 people homeless each night in Los Angeles County.³¹

The Gap Between Wealthy Families and Others Has Grown

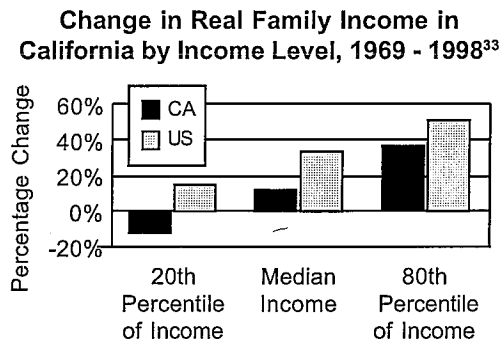
Income inequality is increasing

Income inequality studies provide a way to look at how income is distributed among households and answer the question: Are the rich getting richer and the poor getting poorer? A Federal Reserve Bank report notes that between 1969 and 1998, income inequality increased by 14% in the US and by 23% in California. Between the late 1970s and late 1990s, California was one of only five states where the bottom fifth grew poorer and the top fifth grew richer. Income inequality in Los Angeles County grew by 6.5% from 1990 to 2000.³²



Los Angeles has a higher level of income inequality than California or the US

According to Census 2000 data, Los Angeles had the 4th highest level of income inequality among California's 58 counties, trailing only San Francisco, Marin and Alpine. The LA County *gini index* of 0.502 exceeded both the state (0.475) and the nation (0.463). A separate study of CA income tax data concluded that the Los Angeles region had the highest level of inequality in the state. The *gini index*, a standard measure of inequality, has values between 0 and 1, with a larger number indicating a higher level of inequality.³⁵



Income fell for the poorest families in California

While US workers at the bottom 20th percentile of income experienced an increase in real family income from 1969 to 1998, this category of Californians saw a 12% decrease.³⁶

California's middle class has shrunk

From 1969 to 1998 the percentage of families in the middle class (with incomes between two and five times the US poverty line) declined in California from 55% of the population to 39%. Nationally, there was a smaller but similar trend for the middle class. In the US, there was also a decrease in the lower income group and an increase in the upper group. However, in California both the lower and upper income groups grew, with over 40% of the displaced middle moving to the bottom of the income distribution.³⁷

CEO salaries have outpaced those of rank-and-file workers

The pay for CEOs of large corporations has increased by 340% over the last decade, compared to a 36% increase in the wages of average factory workers. In 2001, CEOs made 411 times as much as the average blue collar worker. The wealthiest fifth of Californians saw their income increase by 66% between 1975 and 1998, while the poorest fifth experienced a 25% loss.³⁸

California Average Adjusted Gross Income By Percentile of Taxpayers - All California Taxable Returns (1998 Dollars)³⁹

Percentile	1975	1985	1995	1998	Change 75 - 98
0 to 20th	\$26,248	\$20,449	\$18,475	\$19,723	-24.8%
20th to 40th	\$31,903	\$25,823	\$24,558	\$26,322	-17.5%
40th to 60th	\$43,535	\$38,109	\$38,027	\$40,141	-7.8%
60th to 80th	\$58,714	\$55,473	\$55,485	\$58,916	0.3%
80th to 100th	\$109,389	\$117,482	\$145,908	\$181,885	66.3%

It is harder to make ends meet now than it was thirty years ago

This simple statement defines a significant part of the monumental economic and social challenges confronting Los Angeles. While some people view these issues as part of normal business cycles, others would go so far as to see Los Angeles heading towards a "third world" economic model. New collaborations and a great deal of wisdom are needed to meet these problems. The Institute invites the Los Angeles community to join us as we seek new solutions.

Endnotes - Where we got it from

NOTE: Substantial efforts were made to find data from comparable years, i.e., 1970, 1980, 1990 and 2000, for this report. For some topics, this data was not available. When data from other years is used, the time frame is cited. The US Bureau of Labor Statistics Inflation Calculator was used to adjust figures for inflation when necessary: <http://data.bls.gov/cgi-bin/cpi/calc.pl>.

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